



Final Minutes
Endowment Fund Investment Regular Board Meeting
August 11, 2016

A regular meeting of the Endowment Fund Investment Board (Board) was held in the Board Conference Room at 816 W. Bannock Street, Ste. 301, Boise, Idaho on August 11, 2016. Chairman M. Dean Buffington called the meeting to order at 9:08 a.m. and recognized that a quorum was present.

Member's Present:

Dean Buffington
Gavin Gee
Representative Anderson
Warren Bakes
Tom Kealey
Gary Mahn
Richelle Sugiyama

Staff Present:

Larry Johnson
Chris Halvorson
Michelle Watts
Judy Shock

Legal Counsel:

Guests:

Janet Becker-Wold, Callan (*departed at 1:15pm*)
Ray Houston, LSO (*9:00-10:50am*)
Debbie Buck, IDL (*departed at 1:15pm*)
Amber Christofferson, DFM (*departed at 1:15pm*)
Eoin Middaugh, Systematic (*9:00-11:00am*)
Ron Mushock, Systematic (*9:00-11:00am*)
Emily Callihan, IDL (*11:41am-1:15pm*)
Sharla Arledge, IDL (*11:41am-1:15pm*)

Member's Absent:

Senator Winder

Hard copies of board materials were mailed and delivered six days prior to the scheduled board meeting and a meeting notice and agenda was posted on the door of the EFIB office beginning August 3, 2016.

Board Meeting Minutes:

Ms. Sugiyama made a motion that the minutes of the May 17, 2016 regular meeting be approved with edits to simplify the Portfolio Structure Study portion. The motion was seconded by Mr. Kealey and approved unanimously.

The consensus of the board was that going forward, brief, concise minutes, were preferred.

Recent Endowment Fund Results

Mr. Halvorson reported the Endowment Fund's performance was 3.1% for the month of July 2016, 0.1% below the benchmark. He also gave a month-to-date performance update.

Capital Market Assumptions

Mr. Johnson presented information on Capital Market assumptions from various sources. Most forecasters indicate that equities will outperform bonds and that expected real estate returns remain attractive.

Fund Performance – 2nd quarter (Janet Becker-Wold, Callan)

Endowment Fund: The endowment portfolio posted a 1.9% return for the quarter ended June 30, 2016, 5 basis points above its benchmark. Relative to public fund peers, the fund ranked 29th percentile for the quarter, 67th for the year ended June (26th percentile relative to endowments and foundations) and 5th percentile (public funds) for the last 10 years.

State Insurance Fund: The SIF portfolio posted a 1.7% return for the quarter ended June 30, 2016, 3.6% for the year and 3.9% for the last five years. The fund outperformed its target for the quarter, the year, and the last five years.

Ms. Becker-Wold discussed underperforming managers and reviewed the compliance report.

FY 2018 Distributions

Mr. Johnson recommended a 16.3% (\$10.3 million) increase in total distributions for FY 2018. He stated that the current fiscal year (2017) and next year's (2018) distribution is safe and that every fund has reserves in excess of 4 years. He added that timber under contract is at record levels and that the forecast for FY 2017 endowment land income is at \$54 million, compared to \$48 million in FY 2016.

He indicated that Public School's FY 2017 distribution had been constrained by a lack of reserves to support a full 5% increase. He added that at the end of FY 2016, Public School recognized a deferred gain in its Permanent Fund of \$107 million which flowed as income to reserves. Because of this, the reserves were boosted to 7.7 years at fiscal year-end, which allows distributions to rise to the full 5% of the Permanent Fund balance, or \$44.7 million. He added that \$47 million of the reserves can be reinvested in the Permanent Fund in September (and still maintain 5 years of reserves), which offsets population growth and further boosts the current distribution by another \$2.3 million to \$47.0 million.

Mr. Johnson explained that the endowment's 0.2% loss, after inflation, was 0.9%, which negatively impacts the income available for distributions to all endowments except Public School. He recommended holding FY 2018 distributions at current levels for the 6 endowments with less than adequate reserves and holding State Hospital distributions at the current levels due to the expected increase in income volatility associated with the sale of cabin sites. He stated that the Charitable Endowment Fund could be at risk of a reduction beyond FY 2018 if its reserves or expected income deteriorates.

Ms. Sugiyama made a motion to recommend that the Land Board approve the FY 2018 distributions of \$73,483,200 and a transfer of \$47,395,000 from the Public School reserves to the permanent fund, which would increase the Gain Benchmark. The motion was seconded by Mr. Kealey and approved unanimously.

Investment Policy – Revisions

Mr. Halvorson proposed edits to the Investment Policy, primarily due to the implementation of Real Estate investment.

Mr. Kealey made a motion to approve the revisions to the Investment Policy. The motion was seconded by Ms. Sugiyama and approved unanimously.

EFIB Strategic Plan

Mr. Johnson stated that annually the agency is required to submit a Strategic Plan. He added that most of the changes are routine.

Ms. Sugiyama made a motion to approve the Strategic Plan. The board requested a few edits to be made to the Plan. The motion was seconded by Ms. Gee and approved unanimously.

Board Compensation – PERSI membership

Due to requests made by the Board, Mr. Johnson researched and reviewed PERSI membership and compensation and confirmed that certain EFIB members are automatically PERSI members and are not allowed to make IRA contributions due to their membership in a pension plan.

Mr. Kealey made a motion to request the Legislature change the nature of board compensation from a “salary” to an “honorarium” effective January 2017, which would move the members outside of the PERSI system. The motion was seconded by Mr. Mahn and approved unanimously.

Break at 10:50am

Mr. Houston, Mr. Mushock, and Mr. Middaugh departed at 11:00am

Board reconvened at 11:03am

Structure Study Recommendations

Mr. Johnson indicated that staff and Callan have reviewed the portfolio risk/return structure for Domestic Equity. He and Ms. Becker-Wold shared four options, all of which entailed reducing the portfolio’s overweight to growth oriented stocks. The board discussed the options.

Ms. Sugiyama made a motion to discharge INTECH as a Large Cap Growth manager and split the funds relatively evenly between the four remaining mandates, including the S&P index fund. The motion was seconded by Mr. Kealey and approved unanimously.

Mr. Johnson presented staff and Callan’s recommendation to replace the current Emerging Markets managers (about 2% of the portfolio) with an International Small Cap mandate. The board discussed the options.

Ms. Sugiyama made a motion to eliminate the dedicated Emerging Markets mandates and move the funds to an MSCI EAFE Index. The motion was seconded by Mr. Kealey and approved unanimously.

Lunch Break at 11:41am

Ms. Callihan and Ms. Arledge arrived

Board reconvened at 12:05pm

FY 2018 Agency Budget

Ms. Shock presented the FY 2018 agency budget. Personnel costs are based on the current fiscal year’s cost, plus a 10% increase for health insurance and a 1% CEC placeholder per the budget instructions from the Governor’s Division of Financial Management. She concluded that Operating and Capital Outlay expenses will remain the same as the current fiscal year.

Mr. Bakes made a motion to approve the budget for FY 2018 as submitted. The motion was seconded by Mr. Gee and approved unanimously.

2017 Board Meeting Schedule

Mr. Johnson reviewed the board meeting schedule for calendar year 2017. No changes were made.

FY 2016 Financial Statements

Ms. Watts presented a draft of the FY 2016 financial statements. She pointed out that GASB 72 was implemented in FY 2016, which measures investments at Fair Value. She added that the statements also reflect that Public School implemented the total return income methodology in FY 2016 after having crossed the Gain Benchmark for the first time at the end of FY 2014. Mr. Kealey asked if there were any comments, questions or suggestions from the Board, and there were none. He added that the Land Board Audit Committee would meet following the EFIB regular meeting today to receive the report of the independent auditor.

EFIB Staff Reports

Mr. Halvorson reviewed the recent performance reports of the Parks and Recreation, Bunker Hill Water Treatment, and Fish & Game Wildlife endowments. Fiscal year-to-date through July 2016, Trail of Coeur d'Alene and Ritter Island are up 3.1%. For the year ended June 2016, the Bunker Hill Water Treatment is up 0.9% and Fish & Game Wildlife endowments are up 3.1 and 3.3%.

Ms. Shock reported on the Expenses vs. Budget, Coverage Ratio and the YTD Land Revenues.

Mr. Johnson reported on Housing Starts, Inland Lumber Price, Stumpage Price, and the Gift Log.

Mr. Johnson reviewed the quarterly report on the School Bond Credit Enhancement program. Two school districts, Caldwell and Minidoka, were issued a guaranty in the third quarter 2016. He stated the total under guaranty stands at \$466.9 million.

Mr. Johnson discussed Upcoming Issues for the November 15, 2016 board meeting and next week's Land Board meeting on August 16, 2016.

Executive Session

Mr. Gee made a motion that the board enter Executive Session pursuant to *Idaho Code §67-2345 (1)*, for the purpose of discussing issues concerning personnel or agents *(b)*. Mr. Kealey seconded the motion and the board approved unanimously. The board went into Executive Session at 1:15 p.m.

The roll call vote was as follows:

Chairman Dean Buffington – Aye

Vice Chairman Gavin Gee - Aye

Representative Anderson – Aye

Warren Bakes - Aye

Tom Kealey – Aye

Gary Mahn - Aye

Richelle Sugiyama - Aye

EFIB Staff were present during the Executive Session

At 1:45 p.m., a motion to return to regular session was made by Mr. Kealey, seconded by Mr. Gee and approved unanimously.

Mr. Kealey made a motion to adopt a policy to issue an RFP for a general investment consultant, no less than every 10 years, but that the next RFP would not be issued before November 2018. The motion was seconded by Representative Anderson with the vote of 6 ayes and 1 nay from Ms. Sugiyama and was approved.

Adjournment

There being no further business to come before the Board, Mr. Kealey made a motion to adjourn, which was seconded by Mr. Gee and passed unanimously.

The meeting adjourned at 1:47 p.m.